

## **ARMICS Frequently Asked Questions (FAQs)**

**Q: When is the ARMICS certification due?**

A: The certification is due on September 30<sup>th</sup> of each year. The agency is certifying that as of FYE June 30, "The [Agency] has completed its control assessment of the agency level risks and significant fiscal processes at the transaction level". If significant weaknesses were identified, the agency submits a corrective action plan along with the certification.

**Q: Who is responsible for ARMICS?**

A: For each agency identified in the Appropriation Act, responsibility for implementing internal control standards begins with the chief executive officer (agency head) and extends to everyone in the agency. Each agency head personally holds the leadership responsibility for helping to design, implement, maintain, and champion an internal control program that encompasses all agency fiscal programs and related activities. Each agency's chief financial officer shares this leadership role, yet ultimately accountability remains with the agency head.

**Q: How often should Stage 1 be completed?**

A: The answer to this question depends on YOUR agency's situation. Some things to consider: has your agency had changes to upper management, has your agency recently undergone a major organizational restructuring, do you feel that the 'tone at the top' has changed in your agency, has your agency's Code of Ethics changed? If yes to any of the above, you should revisit Stage 1.

**Q: Could DOA provide templates to address common weaknesses such as Code of Ethics for agencies that do not have one?**

A: Providing cookie cutter solutions across agencies is not a good way to address solving internal control weaknesses. Each agency is unique and standard approaches would only address the requirement to have something. The goal is to have functioning controls that an agency considers its own. State Police, Economic Development, and Social Services are three agencies. However, their missions and goals probably vary significantly. This variance should be reflected in each agency's strategic plan. Also, because of their emphasis on different matters their values and guiding principles would also vary. Given these differences each agency should have its own Code of Ethics emphasizing the concepts of what each agency is about. DOA recommends that each agency explore their own Code of Ethics based on their purpose as an agency. A good time to do this would be when Strategic Plans are reviewed and top management comes together. In the interim an agency may want to adapt a stop gap Code of Ethics based on general key concepts until they can come together on a true agency based Code of Ethics.

**Q: Who should receive Stage 1 questionnaires?**

A: Survey recipients should vary by the question. In many instances the questions should flow all the way down to the lowest staff positions. It is important to know if top management's impression of the control environment matches what the employees think. Variances may be due to communication issues or misunderstanding on both sides of the equation.

**Q: We are a small agency and some of the questionnaires do not apply very well to our situation. How do we address this?**

A: ARMICS was designed to be a flexible process to address the variation found among agencies. Please feel free to edit and adapt the questions to your particular situation. Just remember to ensure that the underlying concepts are still addressed. Also, if you have some operations that are not addressed by the questions, you should create questions to address the specific control issues at hand.

**Q: How much of the process should an agency document if the full processing of a transaction is shared by a central agency?**

A: The agency should document the parts of the process for which it is responsible. The process documentation should state when the process is handed off to a Central agency or their system and when returned to the agency from the Central operation.

For Example: An agency using CARS to process expenditures goes through their agency controlled processes. Obtains a purchase order, invoice, and receiving report and releases the data into CARS. The agency process stops. CARS performs several processes and control edits. CARS generates reports and provides them to the agency (ReportLine). Now the agency is back into the process control picture on what they do with the various report output provided by CARS.

**Q: How often should Stage 2 be completed?**

A: Stage 2 should be revisited every year. However, this does not mean that all work completed in the first year needs to be redone every year. Fiscal processes should be reviewed EVERY year to ensure no changes have been made to the control activities and key controls of each process. If an agency has a new process it considers significant, then Stage 2 should be wholly completed for the new process ONLY. Each key control should be tested EVERY YEAR.

**Q: How should testing be performed?**

A: The depth of testing will vary with the subject material being tested. A test could be simply observing and briefly reviewing a document or drawing a sample of records to test an attribute. The professional choice of how to test is left to agency management

**Q: How should testing be documented?**

A: The way your agency tests your significant fiscal processes should be documented. Results of surveys and risk assessments; identification of key controls and justification; audit trail of monitoring efforts; and support of transaction-level testing should be included in the documentation of ARMICS. Ensure comprehensive procedure documents are retained and available for internal and external reviewers and auditors.

**Q: What constitutes a process being considered significant?**

A: The definition of a significant fiscal process is affected by numerous factors such as organizational structure, program size, complexity and timing pressure, regulatory environment, materiality, etc., and will vary by agency. A fiscal process may be significant if it is associated with programs or activities that:

- consume a proportionally large share of agency resources;
- have a high-degree of public visibility;

- represent areas of concern and high risk to mission-critical business processes for agency managers and stakeholders, or;
- have a significant affect on general ledger account balances or the financial reporting process.

**Q: I am concerned that covering only the significant financial processes leaves many crucial internal control issues out of the process. Shouldn't we address these as well?**

A: At this point, we are only requiring agencies to address significant fiscal processes as part of stage two. However, DOA encourages agencies to go further to apply the principles of stage two to other areas to identify and correct internal control weaknesses in program operations and other areas. Eventually, the ARMICS process is intended to move forward to a full blown Enterprise Risk Management (ERM) model.

**Q: Does an agency have to develop Corrective Action Plans for all weaknesses identified?**

A: No, ARMICS Standards only require that significant weaknesses in Internal Control be addressed by a Corrective Action Plan. However, it is recommended that other weaknesses be addressed when a cost effective solution to the weakness can be implemented.

**Q: What is required after Stage 2?**

A: Stage 3 – Corrective Action Plans – Significant weaknesses in internal control that are identified through either the agency-level or process-level assessments must be documented and a corrective action plan developed. See the ARMICS document pg. 68 for corrective action plan elements.

**Q: How often should Stage 3 be completed?**

A: Anytime a significant weakness is identified during Stage 2 testing, a corrective action plan should be developed and submitted, along with the certification, to DOA by September 30. The agency has one year from the certification date to correct any significant weaknesses that are identified.

**Q: What should Internal Audit's role be in the ARMICS process?**

A: Internal auditors hold essential responsibilities for assessing, testing, and reporting on internal control. Although internal auditors can provide valuable consultative services with regard to control design, function, and assessment, they cannot relieve management of its responsibility. Agency management may use the internal auditor's analysis of internal control in management's assessment of internal controls; however, the internal auditor's work cannot be substituted for management's independent analysis and documentation of agency internal control.

**Q: What are the consequences of not complying with the ARMICS requirements?**

A: ARMICS is designed to help agencies analyze risk associated with their processes, not as 'just another deadline to meet'. Completing ARMICS will give the agency a chance to identify risk and significantly reduce the threat of unacceptable risk of error and fraud through testing. Additionally, failure to comply with ARMICS could result in citation in the Comptroller's Quarterly Report on Compliance, notification to the Auditor of Public Accounts, and/or removal of decentralized status.